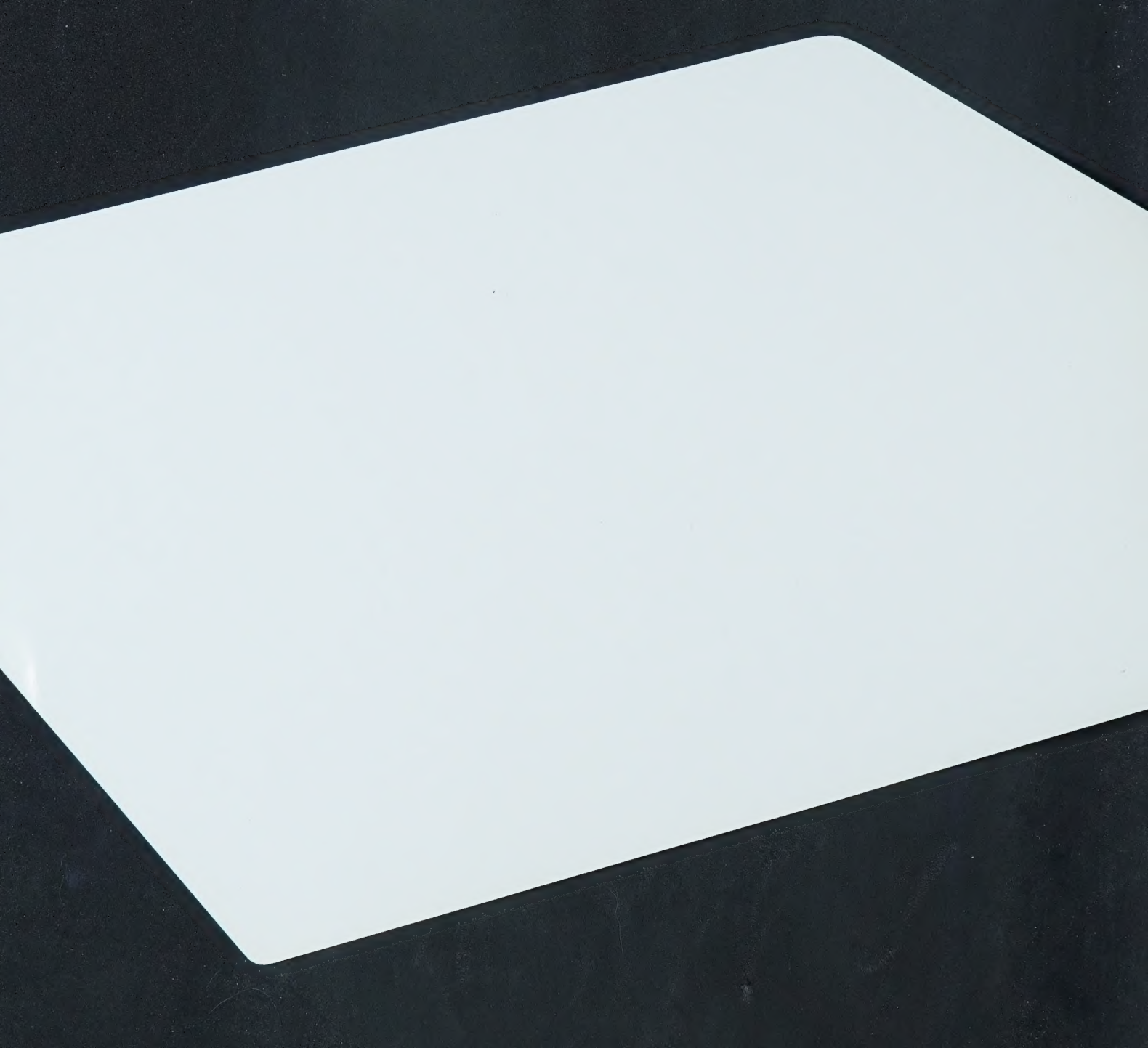


AR27

The pop Shoppe®

Pop Shoppes
International Inc.
Annual Report
1974.



"Nothing is so powerful as an idea whose time has come."

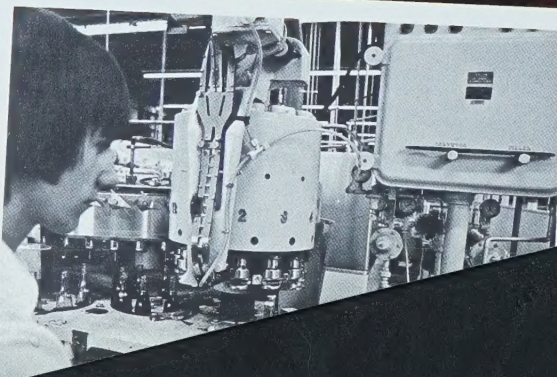
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The PoP Shoppe concept.

Traditionally soft drinks have been moved from large manufacturing facilities through an extensive distribution network to the consumer. The PoP Shoppe has restructured the distribution system and brought the consumer directly to the plant. From our strategically located factory/retail stores, we sell a broad range of high quality soft drinks in attractive red cases on a cash and carry basis under our own trademark. By using only two bottle sizes (10 oz. and family size) in returnable packages (customers pay a \$3.00 deposit per case) and having simplified the production and distribution system, we can profitably sell our product at substantial discounts to the other national brands and private labels in any market.



How it started.

The simple concept of a soft drink bottling plant, warehouse and retail store all in one was developed in Canada.

The idea grew, like many good ideas, as the simple result of taking a new look at an old system. The PoP Shoppe opened originally in London, Ontario in 1969. At that time, with a selling price of a \$1.20 a case, the return to "Nickel Pop" heralded a substantial success, and The PoP Shoppe was under way. Three years later, with operations thriving in eight major centres in Canada and plans drawn up to enter the U.S. market, a controlling interest in the company was purchased by another Canadian firm, Venturetek International Limited.

How it works.

The retail section of The PoP Shoppe location is laid out supermarket-style with flavours and package sizes arranged in aisles. Upon entering, the customer returns his case of empty bottles and selects an empty case for his shopping cart. On a self-serve basis, he may mix and match among both regular flavours and sugar free drinks in either 10 oz. or family size bottles. In the aisles approaching the checkout cashier, a typical

facility would have a display of large containers of our own private labelled potato chips, nuts, bagged ice and ice cream or other complementary items all at substantial discounts to supermarket prices.

Upon completion of his package size and flavour selection, the customer pays the cost of the product plus a \$3.00 refundable deposit on the bottles and case.



Quality.

An integral part of the value inherent in The PoP Shoppe concept is location and appearance of the bottling equipment within the location. The clean, brightly painted facility makes a fascinating display and reinforces the consumers confidence in the quality of the product.

As today's consumer has come to associate drastically low prices with poor quality, we stress quality in our advertising and demand it in service and cleanliness in our locations.

As well as creating a quality image, the bottling and concentrate manufacturing operations have extensive quality control systems which ensure that all products meet the strictest standards. In Canada, we own Kist Canada Limited, which has built a reputation over 40 years for quality and excellence in the flavour industry and supplies all our concentrate. In the United States, Heritage Flavour Corp., a subsidiary of The PoP Shoppes of America, supplies all our concentrate under license.



The PoP Shoppe saves people more than money.

The PoP Shoppe concept, ahead of its time in terms of the economy, is also ahead of its time in terms of ecology. Energy-consuming, litter-creating non-returnable beverage packaging is under fire on all fronts with anti-litter bills before most state and provincial legislatures. An important consideration is that while our \$3.00 deposit is the highest in the industry, we also have the lowest annual bottle loss (less than 2%). Encouraged by environmental groups, The PoP Shoppe gives its customers an "investment in the environment". These days, a selling point not to be taken lightly.

Who we are.

PoP Shoppes International Inc. is a young company in more ways than one. Its original founders and its present principals are all young men. While the average age of the four principal executives is only 36, they have accumulated a wealth of experience in marketing, finance and soft drink production. In addition to a young and aggressive management team, we have developed a large and competent group of operators in the field who will continue to be the backbone of our future expansion.

DIRECTORS

Bruce M. Westwood
J. Gary Shaw
Allan R. Biggs
Michael D. Young
Jeremy N. Kendall
President, Venturetek International
Donald E. Loeb
Executive Vice-President, Venturetek International
F. Martin Crispo
Vice-President and Treasurer, National Life Assurance

OFFICERS

<i>President</i>	Bruce M. Westwood
<i>Executive Vice-President</i>	J. Gary Shaw
<i>Vice-President, Finance</i>	
<i>and Treasurer</i>	Allan R. Biggs
<i>Vice-President</i>	Michael D. Young

INVESTMENT BANKERS

Merrill Lynch,
Royal Securities Ltd.

AUDITORS

Coopers & Lybrand

SOLICITORS FOR CANADA

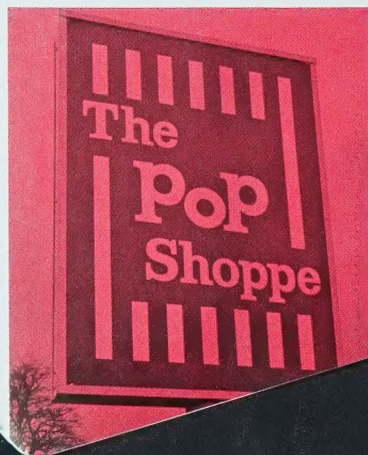
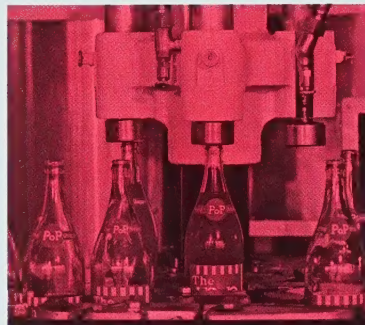
Goodman & Goodman
Baker & McKenzie

SOLICITORS FOR U.S.

Hume, Clement, Brinks
Wild, Christensen, Carter & Hamlin

BANKERS

The Royal Bank of Canada
Bank of Nova Scotia
The Mitsubishi Bank of California
Bank of America
Toronto-Dominion Bank



Expansion.

Since our first opening in Canada in 1969, we have established national production and distribution through corporate and licensed plants as well as approximately 300 satellite stores. During this period, we have also opened 9 production facilities (3 corporate) in the United States. With ten times the population base, greater concentration of population and 30% higher soft drink consumption per capita, we view the U.S. marketplace as an opportunity to provide PoP Shoppes International with continued dramatic growth potential. In addition, we have had preliminary discussions with groups in the U.K., Australia, and Japan with a view to possible joint ventures in those areas.

At the present time, we have three additional PoP Shoppes under construction in Canada and have signed license agreements calling for construction of 26 PoP Shoppe production facilities in the United States over the next 30 months (7 this year). With our current staff and organization and internal cash generation, we feel confident that we can open 15 new PoP Shoppe plants a year in the foreseeable future.



President's Report.

The year in review:

The same factors that made it a difficult year for the North American soft drink industry helped to make it an excellent year for PoP Shoppes International, Inc. The huge increase in the cost of sugar and the unheard of rise in packaging and distribution costs helped to create a strong consumer awareness and reaction to escalating soft drink prices. With the combination of inflation and recession causing a decline in real disposable income, the price conscious consumer began to turn away from many name brands and shop elsewhere for honest value. We feel that we have and will continue to broaden our customer base in this environment.

Revenues.

Allowing for a year-end change from January 31st to December 31st in order to align ourselves more directly with the year-end of our controlling shareholder, our eleven month period had the following highlights:

- There were 5 more PoP Shoppe factories in Canada and 4 in the United States while our depot locations increased by about 100.
- Our total gross operating revenue increased 74% with net income up 48%.

Sales Revenue by Function.

Franchise sales 1%
Royalties 2%
Concentrate sales 12%
Bottling operations sales 85%

Case Sales by Geographic Location.

U.S.A. 18%

Canada 82%



Description of 1974 Revenue.

Wages
and
Salaries 21%

Materials,
Supplies
and Services 59%

Interest on
Long-term Debt,
Depreciation and
Amortization 3%
Provision for
Income Taxes 7%
Earnings Retained
in The Business 10%



We sold 11½ million 24-8 oz. bottle cases of PoP Shoppe soft drinks in 1974, up from 6½ million a year earlier.

• All in all, in spite of the adverse conditions affecting the soft drink business as a whole, an encouraging year.

Capital expenditures.

In 1974, we added substantially to our asset base, acquiring 2 of our original licensees, bringing the total number of company owned or controlled bottling facilities in both Canada and the U.S. to 10.

We opened 1 new corporate bottling plant and spent \$2 million acquiring cases, bottles and equipment for our own operations.

At year end, our total investment in packaging and bottling equipment stood at \$4,868,000.

Balance sheet changes.

Working capital during the year was boosted through the issue of 127,000 treasury shares at \$4.00 per share by way of private placement

In addition, a working capital loan of \$2,000,000 was secured from RoyNat Ltd., an investment arm of The Royal Bank of Canada, Banque Canadien Nationale and Canada Trust. This was a substantial aid to corporate liquidity during the latter part of the year.

With continued success in the Canadian marketplace assured, we can now use the sizeable asset base in Canada to finance our growth in the lucrative U.S. market in the coming years



Management and organization.

This company was founded by young, innovative entrepreneurs who have built the business into a successful international enterprise. We feel it would be a mistake to lose growth potential and motivation in the regional markets by concentrating management in a head office system. Therefore, in the past year, we have taken steps to decentralize our management function in both Canada and the United States. PoP Shoppes of Canada Limited is now located a few blocks from the original PoP Shoppe location in London, Ontario. The PoP Shoppes of America has just moved its headquarters to Denver, Colorado.



Keeping all levels of management in close touch with the retailing side of our business is a key part of our business philosophy and success to date.

But even more important than what our people, from the executive to the production people, put into the business, is what they get out of it. With the stock purchase plan and bonus system we now have in effect we can count on the continued outstanding performance that has enabled us to make such a significant penetration in our industry in just a few short years.

Outlook.

With the decrease in the conventional national franchise bottling and distribution system continuing to thin out the ranks of bottlers, we are extremely confident about our opportunities for expansion in the years ahead. In Canada our growth has attained a solid momentum. With 20 bottling operations now in our coast to coast network and the opening of 3 new plants this year, we will soon have distribution in every major Canadian centre. In the United States there are currently 3 company-owned operations and 6 licensees. Our research shows that there are approximately 165 urban centres in the U.S. large enough to support an

operation of our type, representing over 300 bottling operations. At this writing, we have signed licensee agreements to open 26 plants in the next three years with 7 of them to open within the next eight months.

Soft drinks will continue to play a big part in the North American way of life for years to come. Despite a slack economy, it's been shown that consumers are reluctant to cross soft drinks off their shopping lists as an economy measure, preferring instead to shop for a less expensive product. This puts The PoP Shoppe in an enviable market position. Our aim is to capture 3% of the 7 billion dollar a year industry volume in North America. With the continued support of our loyal employees and shareholders, we know it can be done.

Six Year Comparative Sales Summary on a Combined Basis.

(\$,000)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1974(a)</u>
TOTAL SALES	1,061	1,223	2,063	3,823	7,007	10,943
% Change Over Prior Year	N/A	+15.3%	+68.7%	+85.3%	+83.3%	+56.2%

(a) For the eleven
month fiscal
year ended
December 31,
1974

OTHER STATISTICS

Number of Corporate Plants . . .	1	1	2	5	7	10	13
Number of Licensed Plants . . .	—	3	4	9	14	19	20
Total	1	4	6	14	21	29	33

As at
June 30,
1975

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of PoP Shoppes International Inc. and its subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the eleven months then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the eleven months then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

COÖPERS & LYBRAND
Chartered Accountants

April 15th, 1975.

**PoP Shoppes International Inc.
and Subsidiary Companies.**

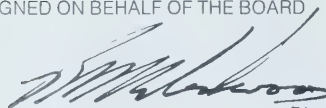
Consolidated Balance Sheet

as at December 31, 1974.

ASSETS

	December 31 1974 \$	January 31 1974 \$
CURRENT ASSETS		
Cash and short-term deposits	597,398	23,631
Accounts receivable (note 3)	913,795	366,125
Investment in property and equipment held for re-sale	—	1,131,066
Inventories (notes 3 and 4)	676,184	390,782
Containers (note 3)	4,890,317	2,877,002
Income taxes recoverable (note 3)	15,413	6,554
Prepaid expenses	127,675	100,009
Current portion of notes receivable	568,470	2,779
	<u>7,789,252</u>	<u>4,897,948</u>
NOTES RECEIVABLE		
Shareholders	443,317	—
Other	220,000	—
INVESTMENT IN SHARES AND ADVANCES TO LICENSEE COMPANIES		
— at cost	836,412	183,575
FIXED ASSETS (note 5)	<u>2,505,745</u>	<u>1,863,862</u>
DEFERRED COSTS (note 6)	<u>993,568</u>	<u>355,853</u>
OTHER ASSETS — at cost less amortization		
Advertising materials	78,687	—
Trademarks	80,236	32,317
Organization expense	12,935	10,141
Goodwill	200,000	110,000
EXCESS OF COST OF SHARES IN SUBSIDIARY COMPANIES OVER BOOK VALUE OF NET ASSETS ACQUIRED (note 1)	<u>2,378,596</u>	<u>2,233,062</u>
	<u>15,538,748</u>	<u>9,686,758</u>

SIGNED ON BEHALF OF THE BOARD


Director


Director

LIABILITIES

	December 31 1974	January 31 1974
	\$	\$
CURRENT LIABILITIES		
Bank advances (note 3)	1,437,208	1,217,211
Accounts payable and accrued liabilities	1,258,073	1,167,057
Due on purchase of shares in subsidiary company (note 8(b))	284,187	—
Refundable deposits on containers	1,387,732	952,795
Notes payable	640,720	—
Current portion of long-term debt	637,039	417,794
	<u>5,644,959</u>	<u>3,754,857</u>
Deferred income taxes	694,947	443,783
	<u>6,339,906</u>	<u>4,198,640</u>
ADVANCES FROM PARENT COMPANY	526,951	129,334
DEFERRED INCOME TAXES	654,553	248,101
LONG-TERM DEBT (note 7)	3,219,555	1,818,635
MINORITY INTEREST IN NET ASSETS OF CONSOLIDATED SUBSIDIARY COMPANIES	—	28,556
	<u>10,740,965</u>	<u>6,423,266</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 9)

Authorized — 1,000,000 6% non-cumulative preference shares
redeemable at their par value of \$1 each
5,000,000 common shares without par value

Issued and fully paid —

950,748 preference shares	950,748	950,748
3,400,378 common shares (note 8)	2,258,983	1,569,797
	<u>3,209,731</u>	<u>2,520,545</u>

RETAINED EARNINGS	1,588,052	742,947
	<u>4,797,783</u>	<u>3,263,492</u>
	<u>15,538,748</u>	<u>9,686,758</u>

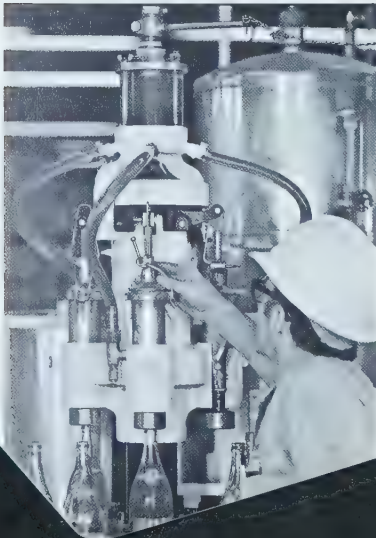
Consolidated Statement of Earnings.

For the eleven months ended December 31, 1974.

Consolidated Statement of Retained Earnings.

For the eleven months ended December 31, 1974.

	December 31 1974	January 31 1974
	\$	\$
BALANCE — BEGINNING OF PERIOD	742,947	96,981
Net earnings for the period	845,105	645,966
BALANCE — END OF PERIOD	1,588,052	742,947



	Eleven Months Ended December 31 1974	Year Ended — January 31 1974
	\$	\$
SALES	8,842,403	5,028,726
COST OF SALES	4,764,217	2,321,980
GROSS PROFIT	4,078,186	2,706,746
SELLING AND ADMINISTRATIVE EXPENSES	2,681,522	1,692,559
	<u>1,396,664</u>	<u>1,014,187</u>
ADJUSTMENT OF PRIOR YEARS' EXPENSES (note 10)	101,724	—
	1,498,388	1,014,187
PROVISION FOR INCOME TAXES	653,283	421,347
EARNINGS FOR THE PERIOD BEFORE MINORITY INTEREST	845,105	592,840
MINORITY INTEREST IN NET EARNINGS OF SUBSIDIARY COMPANIES	—	7,025
EARNINGS FOR THE PERIOD BEFORE EXTRAORDINARY ITEM EXTRAORDINARY ITEM	<u>845,105</u>	<u>585,815</u>
Gain on liquidation of investment in licensee company	—	60,151
NET EARNINGS FOR THE PERIOD	<u>845,105</u>	<u>645,966</u>
INCLUDED IN THE ABOVE ARE THE FOLLOWING		
Depreciation	76,850	82,217
Amortization of deferred costs	102,363	54,790
Interest on long-term debt	127,152	66,329

Consolidated Statement of Changes in Financial Position.

For the eleven months ended December 31, 1974.

	Eleven Months Ended December 31 1974	Year Ended January 31 1974
SOURCE OF WORKING CAPITAL		
Earnings for the period before minority interest and extraordinary item	845,105	592,840
Items not affecting working capital —		
Depreciation	76,850	82,217
Amortization	102,363	54,790
Deferred income taxes	406,452	149,201
Provided from operations	<u>1,430,770</u>	<u>879,048</u>
Proceeds from issue of shares — preference	—	950,748
— common	689,186	1,569,730
Advances from parent company	397,617	363,533
Proceeds on liquidation of investments	—	72,151
Proceeds on long-term debt	<u>2,443,858</u>	<u>1,848,466</u>
	<u>4,961,431</u>	<u>5,683,676</u>
USE OF WORKING CAPITAL		
Reduction of minority interests	28,556	74,141
Increase in notes receivable, net of current portion	663,317	—
Increase in investments and advances	652,837	120,894
Purchase of fixed assets — net	313,490	1,163,461
Working capital deficiency of subsidiaries acquired	9,024	—
Additions to deferred costs	713,649	283,122
Purchase of advertising materials	78,687	—
Purchase of trademarks and organization expense	50,713	30,890
Reduction of long-term debt, net of increase in current portion	1,465,586	474,631
Repayment of advances from parent company from issue of preference shares	—	950,748
Goodwill and licenses acquired	90,000	110,000
Excess of cost of shares in subsidiary companies over net book value acquired during the year	145,534	1,180,772
	<u>4,211,393</u>	<u>4,388,659</u>
INCREASE IN WORKING CAPITAL	750,038	1,295,017
WORKING CAPITAL (DEFICIENCY)—		
BEGINNING OF YEAR	<u>699,308</u>	(595,709)
WORKING CAPITAL —		
END OF YEAR	<u>1,449,346</u>	<u>699,308</u>

Notes to Consolidated Financial Statements.

For the eleven months ended December 31, 1974.

1 BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies, all of which are wholly-owned as at December 31, 1974.

The assets and liabilities and results of operations of United States subsidiaries are included on the basis of parity between Canadian and U.S. dollars.

An historical summary of acquisitions made by the company and its subsidiaries from December 23, 1971 to December 31, 1974 as follows:

	PoP Shoppes of Canada Limited	Kist Canada Limited	PoP Shoppes (Waterloo) Limited	PoP Shoppes (Alberta) Limited	PoP Shoppes (Toronto) Limited	R.B.S. Enterprises Limited	PoP Shoppes (Ottawa) Limited	TOTAL \$
ACQUISITIONS								
Percentage of outstanding equity shares held	100%	100%	100%	100%	100%	100%	100%	
Effective date of acquisition	December 23, 1971	August 31, 1972	August 31, 1972	January 15, 1973	September 1, 1973	December 1, 1974	December 1, 1974	
NET ASSETS ACQUIRED								
Net assets, (Liabilities) at the book value of the subsidiary	174,880	194,488	18,166	236,808	198,373	63,155	(32,911)	852,959
Excess cost	388,738	99,969	69,934	894,863	816,898	74,707	33,487	2,378,596
	<u>563,618</u>	<u>294,457</u>	<u>88,100</u>	<u>1,131,671</u>	<u>1,015,271</u>	<u>137,862</u>	<u>576</u>	<u>3,231,555</u>
CONSIDERATION GIVEN								
Cash	424,471	294,457	88,100	601,421	415,271	26,312	576	1,850,608
Treasury Shares (note 8(b))	139,147	—	—	530,250	600,000	111,550	—	1,380,947
	<u>563,618</u>	<u>294,457</u>	<u>88,100</u>	<u>1,131,671</u>	<u>1,015,271</u>	<u>137,862</u>	<u>576</u>	<u>3,231,555</u>

It was the policy of the company not to amortize the excess costs of the investments in shares of subsidiaries over the book value of net assets acquired, because, in the opinion of management, no decrease in the value of this asset was, or is, expected. However, in accordance with generally accepted accounting principles recently codified, excess costs incurred after March 31, 1974 are to be amortized on a straight line basis by charges to income over the succeeding forty years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVENTORIES

Inventories are valued at the lower of cost or net realizable value.

CONTAINERS

Containers represent bottles and cases and are valued at cost less an allowance for breakage and loss of \$328,779 (January 31, 1974 — \$303,358). Amortization is provided in the accounts sufficient to absorb cost, less customers' deposits, over estimated useful life

INVESTMENTS AND ADVANCES

The investment portion represents equity interests in licensee companies ranging from 12½% to 50%. These have been accounted for on the cost basis because the company does not exercise effective control and it is not intended to hold them as a permanent investment

FIXED ASSETS

Depreciation and amortization are provided for in the accounts on a straight line method in amounts sufficient to amortize costs over the estimated useful lives of the assets.

DEFERRED COSTS

Deferred costs are as follows:

Opening—Opening costs represent costs incurred in the opening of company-owned factory outlets up to and including the day of the opening

Development—Development costs include administrative and other operating costs which are identifiable with the company's program of opening approximately 15 PoP Shoppes every year for the next five years.

Borrowing—Borrowing costs are the direct costs incurred to obtain long term debt financing

Amortization of Deferred Costs—Deferred costs are amortized as follows

Opening—during the first sixty months commencing with the month following the opening of each factory store.

Development—during the first sixty months commencing with the month following the fiscal year-end in which they were incurred.

Borrowing—over the repayment terms of the debt acquired.

REFUNDABLE DEPOSITS ON CONTAINERS

The refundable deposits on containers represents monies received as deposits net of returns at the prevailing deposit rate. Deposit rates since the commencement of operations have been as follows:

	\$
Prior to May 1972	1.60
May 1972	2.00
May 1974	3.00

3. SECURITY FOR BANK ADVANCES

Book debts, inventories and containers of PoP Shoppes (Toronto) Limited and PoP Shoppes (Alberta) Ltd. together with the shares of PoP Shoppes (Toronto) Limited, have been pledged as security for book advances

4. INVENTORIES

Inventories are as follows:

	December 31 1974 \$	January 31 1974 \$
Raw materials	300,965	199,753
Finished goods	164,917	106,092
Advertising supplies for licensees	40,816	36,984
Equipment for resale and supplies	169,486	48,133
	<u>676,184</u>	<u>390,782</u>

5. FIXED ASSETS

Fixed assets are as follows:

	Cost \$	Accumulated depreciation \$	Net Book Value	
			December 31 1974 \$	January 31 1974 \$
Land	382,557	—	382,557	349,538
Building & leasehold improvements	1,086,863	114,570	972,293	794,812
Machinery & Equipment	1,283,045	198,909	1,084,136	676,987
Automotive Equipment ..	84,429	17,670	66,759	42,525
	<u>2,836,894</u>	<u>331,149</u>	<u>2,505,745</u>	<u>1,863,862</u>

APPRAISAL VALUE

Land and buildings with a net book value of \$1,057,765, were appraised by the Montreal Trust Company on June 28, 1974 at \$1,497,000.

6. DEFERRED COSTS

Deferred costs are as follows:

	Cost to Date \$	Amortization to Date \$	Unamortized balance	
			December 31 1974 \$	January 31 1974 \$
Opening	578,299	128,087	450,212	199,706
Development	527,544	52,336	475,208	145,827
Promotional				
Seminars	11,794	10,168	1,626	10,320
Borrowing	66,522	—	66,522	—
	<u>1,184,159</u>	<u>190,591</u>	<u>993,568</u>	<u>355,853</u>

7. LONG-TERM DEBT

Long-term debt consists of:

	December 31 1974 \$	January 31 1974 \$
(a) 14¼ % debenture payable as follows: . . .	2,000,000	—
— \$20,000 month plus interest commencing March 15, 1975 to January 15, 1977		
— \$40,000 monthly plus interest commencing March 15, 1977 to January 15, 1980		
— \$120,000 plus interest due on February 15, 1980.		

SECURITY FOR 14¼ % DEBENTURE

The company has granted a fixed and floating charge on the property and assets of the company and its subsidiaries.

The company has granted a first, fixed and specific mortgage on all the shares of a subsidiary, PoP Shoppes of America, Inc.

The company's subsidiaries and affiliates have entered into an agreement of guarantee in the amount of \$1,500,000 each.



7. LONG-TERM DEBT

Long-term debt consists of:

	December 31 1974 \$	January 31 1974 \$		December 31 1974 \$	January 31 1974 \$
• 14¼ % debenture payable as follows:	2,000,000	—	• 12½ % mortgage debenture, payable in quarterly installments of \$3,000, due March 15, 1975	3,000	15,000
— \$20,000 monthly plus interest commencing March 15, 1975 to January 15, 1977			• 13% mortgage bond, payable in quarterly installments of \$3,000, due December 15, 1975	56,000	68,000
— \$40,000 monthly plus interest commencing March 15, 1977 to January 15, 1980			• 10½ % mortgage debenture, payable in annual installments of \$18,000, due September 15, 1977	52,500	69,000
— \$120,000 plus interest due on February 15, 1980			• 11% mortgage bond, payable in monthly installments of \$1,250, due September 15, 1978	56,250	70,000
			• 9½ % mortgage debenture, payable in annual installments of \$40,000, due May, 1979	200,000	—
			• 10¾ % mortgage bond, payable in monthly installments of \$680, due August 15, 1980	54,300	61,780
			• 10¾ % first mortgage bond, payable in annual installments of \$10,000 to January 1974, \$20,000 to January 1981 and \$10,000 in August 1981, the due date	135,000	150,000
			• 10¾ % mortgage bond, payable in monthly installments of \$2,300, due November 15, 1981	192,100	217,400

SECURITY FOR 14¼ % DEBENTURE

The company has granted a fixed and floating charge on the property and assets of the company and its subsidiaries.

The company has granted a first, fixed and specific mortgage on all the shares of a subsidiary, PoP Shoppes of America, Inc.

The company's subsidiaries and affiliates have entered into an agreement of guarantee in the amount of \$1,500,000 each.

	December 31 1974 \$	January 31 1974 \$
• 10¾ % mortgage debenture, payable in annual installments of \$11,000, due September, 1982	88,000	96,250
• 11¼ % mortgage debenture, payable in annual installments of \$13,000, due September, 1983	117,000	126,750
• Advance on a 14½ % mortgage debenture payable when fully drawn in monthly installments of \$1,085, due November 15, 1984	34,000	—
• 9¾ % mortgage debenture payable in monthly installments of \$1,123 including interest, due January 1, 1985	115,994	—
• Bank loan at prime lending rate plus 2% payable in annual installments of \$80,000 ..	298,550	200,000
• Demand bank loan, payable in monthly installments of \$1,500 with interest at 3% above the prime bank rate	47,500	64,000

	December 31 1974 \$	January 31 1974 \$
• Conditional sales agreements due as follows:		
1975 \$32,145		
1976 27,009		
1977 21,513		
1978 4,357		
1979 1,451		
	86,475	17,183
• 10% promissory notes, due January 1980	136,367	1,081,066
• Non-interest bearing notes, payable in annual installments of \$63,000	183,558	—
	3,856,594	2,236,429
Less: Current portion	637,039	417,794
	<u>3,219,555</u>	<u>1,818,635</u>



8. CAPITAL STOCK — COMMON SHARES

(a) The following changes in issued capital were effected during the eleven months ended December 31, 1974.

	Number of shares	Amount \$
BALANCE — BEGINNING OF PERIOD	3,190,266	1,569,797
Issued for cash	127,100	508,400
Issued re Key Employee stock plan (note 9(c)) ..	64,927	200,831
Issued for shares in a licensee company	10,000	50,000
Issued to a shareholder on account of an anti-dilution agreement (note 9(d))	8,085	—
	3,400,378	2,329,028
Less costs of issue	—	70,045
BALANCE — END OR PERIOD	3,400,378	2,258,983

(b) The company has contracted to issue 22,310 common shares for an aggregate consideration of \$111,550 as partial consideration for the amount due on purchase of shares in a subsidiary company.

9. STOCK OPTION

(a) The company has granted an option on 160,000 common shares from the unissued capital of the company, as one of the conditions of the Offer of Finance, for the 14¼ % debenture for \$2,000,000.

TERM: The term of the option agreement shall be exercisable at any time within the term extending to either

(1) the day following thirty days after the receipt of unaudited financial statements for the final three month period of the last year of the term of the term of the debenture.

or

- (2) the day following thirty days after the receipt of the audited consolidated financial statements of the company for the fiscal year ending December 31, 1979.

PRICE: The option price per common share is \$4.00.

At all times during the term of this option agreement, the company holding the option will be entitled to acquire a number of shares equal to 4.493% of the total issued and outstanding common shares of the company after the exercise in full of the option, for an aggregate price of \$640,000.

- (b) The company has issued an option in favour of the parent company on 12,945 common shares for consideration of \$21,436. This option is available until April 18, 1976.
- (c) During the period the company approved a stock option plan, allocating 70,000 shares for purchase by certain key employees. Of these shares, 64,927 were issued for notes in the amount of \$208,831.
- (d) An anti-dilution agreement with a shareholder ensures his holdings remain at 6% of the company's issued share capital.

ADJUSTMENT OF PRIOR YEARS' EXPENSES

During the eleven months ended December 31, 1974, the company and its subsidiaries reevaluated the rates of amortization and depreciation used in charging to earnings the following items.

- Containers
- Deferred costs
- Bottling equipment

In order to accurately charge to earnings the costs over their estimated useful life, a retroactive adjustment decreasing the amortization and depreciation claimed in prior years was made as follows:

	\$
Containers	63,207
Deferred costs	8,658
Bottling equipment	29,859
	<u>101,724</u>

If amortization and depreciation had been calculated on the same basis for the eleven months ended December 31, 1974 as in the previous periods, the net earnings and retained earnings would have been decreased by \$104,043.

11. CONTINGENT LIABILITIES

The company and its subsidiaries have guaranteed debts in the amount of \$865,000 on behalf of companies in which minority interests are held.

12. RESTRICTIONS ON PAYMENT OF DIVIDENDS

Under terms of indentures with secured creditors the following companies are precluded from declaration on payment of dividends or other distributions in respect to capital stock.

PoP Shoppes (London) Limited
PoP Shoppes of Canada Limited
PoP Shoppes (Toronto) Limited
PoP Shoppes (Saskatchewan) 1973 Limited

PoP Shoppes International Inc. has agreed not to make payments of dividends in any year in excess of 50% of the unconsolidated net profits of the previous year without consent of the debenture holder.

13. OTHER STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers (as defined by the Business Corporations Act, Ontario) was \$159,801 (January 31st, 1974 — \$51,963).

14. CHANGE IN FISCAL PERIOD

Effective December 31st, 1974 the company and its subsidiaries changed the end of their fiscal period from January 31st, to December 31st.

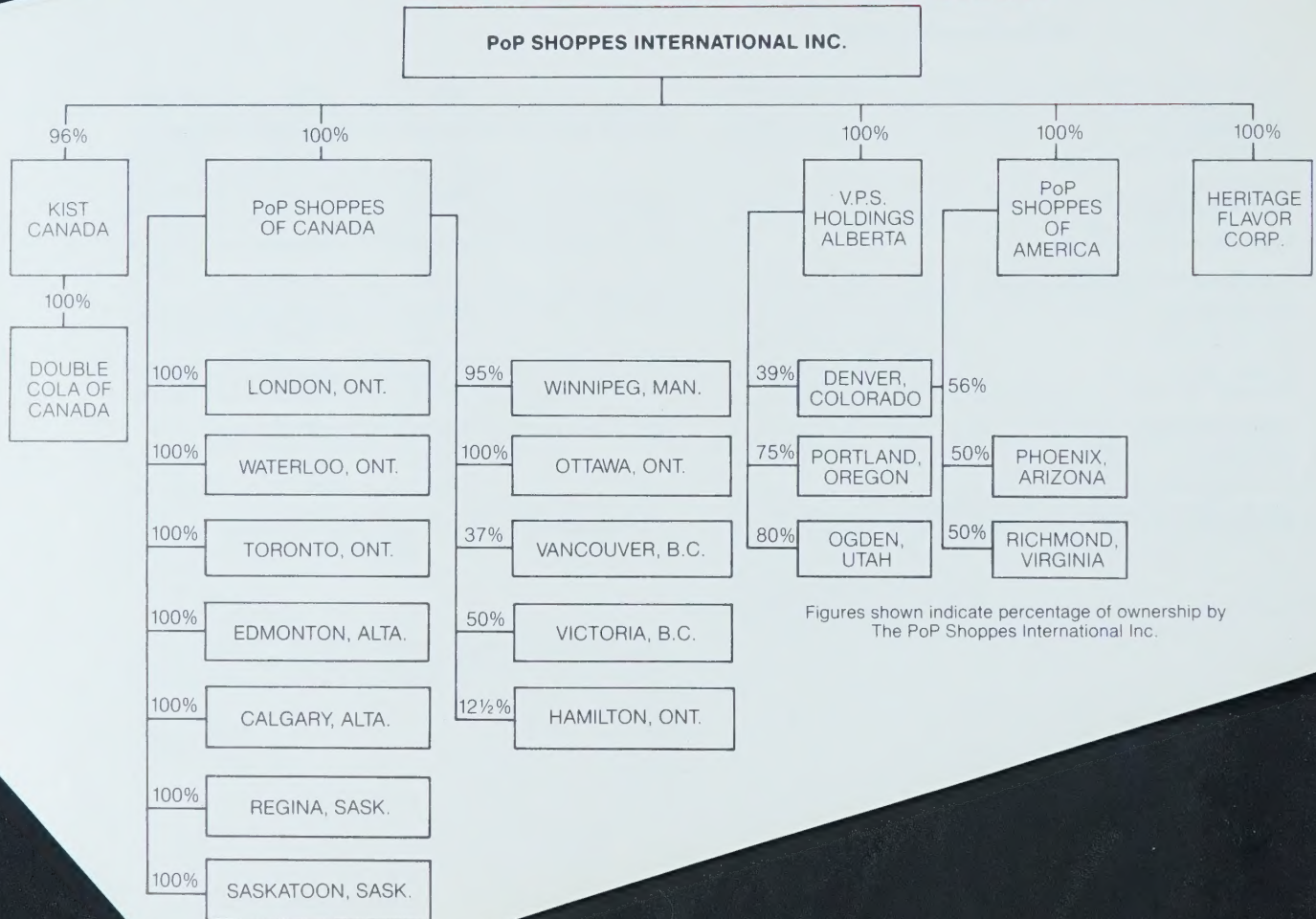
Three Year Comparative Summary on a Consolidated Basis

For the years ending January 31

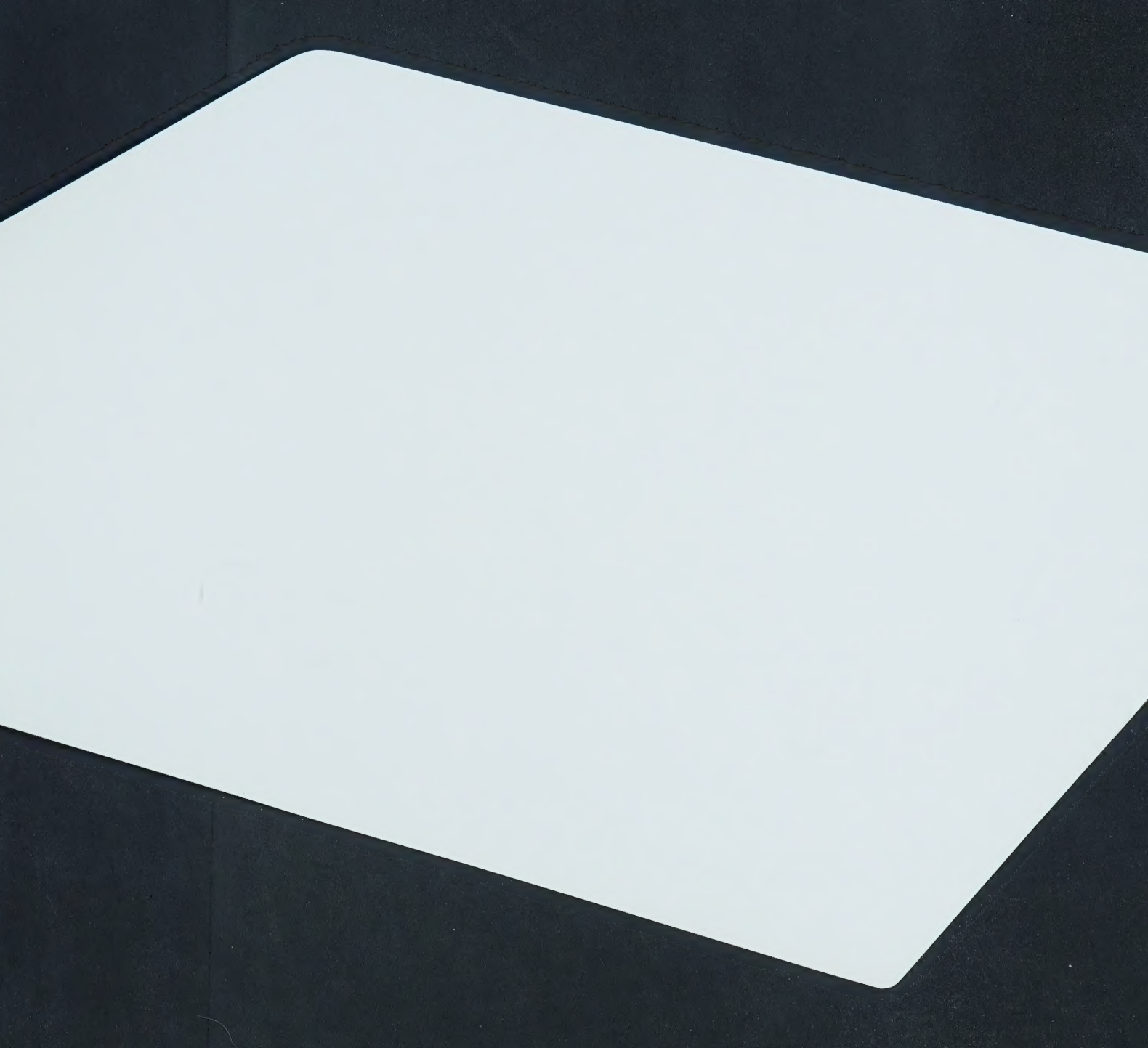
	<u>1973</u>	<u>1974</u>	<u>1974(a)</u>
Total Sales	1,243,256	5,028,726	8,842,403
% Change Over Prior Year	N/A	+ 304.5%	+ 75.8%
Operating Profit	321,854	1,217,523	1,804,753
Operating Margins	25.9%	24.2%	20.4%
Depreciation and Amortization	37,246	137,007	179,213
Interest on Long-Term Debt	30,771	66,329	127,152
Pre-Tax Income	253,837	1,014,187	1,498,388
Pre-Tax Margins	20.4%	20.2%	16.9%
Income Taxes	113,639	421,347	653,283
Apparent Tax Rate	44.8%	41.5%	43.6%
Extraordinary Items	(43,217)	60,151	—
Net Income	96,981	645,966	845,105
% Change over Prior Year	N/A	+ 566.1%	+ 30.8%

(a) For the 11 month fiscal year ended December 31, 1974

CORPORATE ORGANIZATION CHART



Figures shown indicate percentage of ownership by
The PoP Shoppes International Inc.





PoP Shoppes International Inc.
146 Yorkville Ave.,
Toronto, Ontario M5R 1C3
Canada